

World Trade: GATT and WTO

Background Information:

The World Trade Organization (WTO) was established in 1995 to get rid of or reduce import tariffs and reduce barriers to trade among participating countries. The WTO oversees 95% of world trade; it currently has 144 member countries. What does the WTO do? It regulates trade of goods and services among member countries, helps trade flow smoothly, settles trade arguments or conflicts between governments of member countries, protects copyrights and patents, and negotiates trade agreements.

Member countries of the WTO agree to support the goals of lowering tariffs to promote free trade and abide by the decisions the WTO makes. Established rules make trade more predictable. Therefore, countries are more willing to participate and compete.

WTO has far-reaching effects on businesses and consumers. When trade barriers are removed, businesses feel more comfortable trading with other nations around the world. Therefore, businesses who participate in worldwide trade have the potential for more buyers of their goods or services. That enables them to expand their businesses and increase their profits. With a larger market, businesses may increase production and hire more workers to meet the higher demand for goods and services around the world. This means more jobs.

Consumers benefit too. Worldwide trade gives consumers more choices among goods and services. Since greater competition generally lowers prices, consumers pay less. Consumers benefit from this economic growth since they have jobs and are able to buy more goods and services.

What could be a disadvantage to joining the WTO? Sometimes a business may not survive because it can't compete with imported goods and services that are priced lower than the ones they produce. As a result, people in those businesses may lose jobs.

The WTO followed a previous trade organization called GATT, General Agreement on Tariffs and Trade. GATT was established in 1948 after World War II to promote world trade by reducing barriers to trade between countries. Later on, members wanted to reform the GATT system and cover trade concerns such as the trading of services as well as goods and the protection of intellectual property rights, e.g., copyrights, trademarks, and patents. The WTO grew out of this discussion. The WTO differs from GATT in several ways: it oversees the newer trade issues mentioned above (intellectual property rights and services trade), it regularly reviews members' trade policies, and it has stronger procedures to resolve conflicts.

Sources:

- http://news.bbc.co.uk/1/hi/business/the_economy/334334.stm
- http://news.bbc.co.uk/1/hi/business/the_economy/economy_reports/96032.stm
- http://www.wto.org/english/thewto_e/whatis_e/whatis_e.htm
- <http://www.cnle.org/nle/crsreports/finance/fin-1.pdf>

World Trade: GATT and WTO (*continued*)

1. One of the six core economic principle states, "Free and voluntary trade creates wealth." Explain how this principle applies to GATT and the WTO.
 2. How does the WTO affect businesses? Consumers?
 3. What is a negative consequence mentioned in the above article? How would this affect a country's economy?
 4. How might the price of the foods you have in your home be different if the WTO did not exist? Why?
 5. How is the WTO similar to NAFTA?
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